

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6230

BILL NUMBER: HB 1376

DATE PREPARED: Nov 1, 2000

BILL AMENDED:

SUBJECT: Township firefighting levies.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for a one time recomputation of the maximum property tax levies for township firefighting funds.

Effective Date: July 1, 2001.

Explanation of State Expenditures: Under this proposal, Fire Fund maximum levies would be re-computed in CY 2002 for all townships that have, or will, borrow money to pay for fire protection or emergency medical services (EMS) in CY 1999, CY 2000, or CY 2001. The amount of the increase would be equal to the total amount of loans in those years divided by the number of years in which loans were obtained.

Under current law, townships may borrow money for firefighting operating expenses if the township's legislative body determines that there is an emergency requiring the expenditure of money not included in the township's budget estimates and levy. This determination and the subsequent loan request must be made on an annual basis, if needed. By contrast, the maximum levy adjustment that would be made under this bill would be the township's base for future years' maximum levies.

Townships that would receive a maximum levy increase under this bill will have borrowed operating funds at some time from CY 1999 - CY 2001 and consequently will have also imposed Debt Service Fund levies to retire the debt. If a township has a recurring need to borrow operating funds then the maximum levy increase made under this bill would not represent an increase in the township's overall property tax levy. For these townships, the increase in the Fire Fund levy under this bill would take the place of the Debt Service Fund levy. If a township has borrowed money in only one or two of the three years and has no recurring need, then the maximum levy adjustment made under this bill would allow the township to raise its overall property tax levy.

Since overall property taxes for townships that have a recurring need to borrow operating funds would not

increase, this bill would not affect the amount that the state pays for Homestead Credit in these townships. Conversely, if a township without recurring need receives a maximum levy adjustment and uses the additional authority, then Homestead Credit expense could increase.

The state does not pay Property Tax Replacement Credit (PTRC) on the debt levies, but it will pay PTRC on the operating levy under the re-computed maximum levy. Therefore, the increased maximum levies for all townships that receive and use them would result in an increase in PTRC payments. Based on the example of maximum levy increases explained below in local revenues, the state could be liable for additional PTRC in the estimated amount of \$1.5 M in CY 2002 and \$1.6 M in CY 2003 or **\$750,000 in FY 2002 and \$1.5 M in FY 2003**. PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This analysis examines loan data for 1997 - 1999. In CY 1997, 13 townships borrowed a total of \$4.2 M for fire and EMS expenses. In CY 1998, seven townships borrowed a total of \$4.5 M and in CY 1999, 13 townships borrowed a total of \$7.4 M. Only four townships borrowed money in all three years. The statewide total of average loans per township for these three years is equal to \$7.5 M. If CY 2000 and CY 2001 borrowing habits are similar to those in CY 1997 - CY 1999 then the maximum levy increase under this proposal could total about \$7.5M in CY 2002. If additional townships borrow funds for operating in CY 2000 or CY 2001, then the total increase could rise. The new maximum levy would be the township's base for future years.

As stated above, townships that receive a maximum levy increase under this bill will have borrowed operating funds and imposed Debt Service Fund levies at some time during CY 1999 - CY 2001. Maximum levy increases for townships with a recurring need to borrow operating funds would not increase the township's overall property tax levy or local revenue. These townships may be able to reduce expenses and overall property tax levies with the elimination (or reduction) of interest on debt and fees associated with obtaining a loan. However, if a township receives and uses the maximum levy adjustment but has no recurring need, the township's overall property tax levy could rise.

The actual fiscal impact depends on local action in CY 1999, CY 2000 and CY 2001.

State Agencies Affected: State Tax Board.

Local Agencies Affected: Townships.

Information Sources: Jim Cornwell, State Board of Tax Commissioners (232-3773).